



**Federal Housing Finance Agency
Office of Inspector General**

**FISCAL YEAR 2017
CONGRESSIONAL BUDGET JUSTIFICATION**

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Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, stakeholders, and the American people. The FHFA Office of Inspector General (OIG) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and brings enforcement actions against those, whether inside or outside of the federal government, who waste, steal, or abuse government funds in connection with the Agency, Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks.

Our Mission

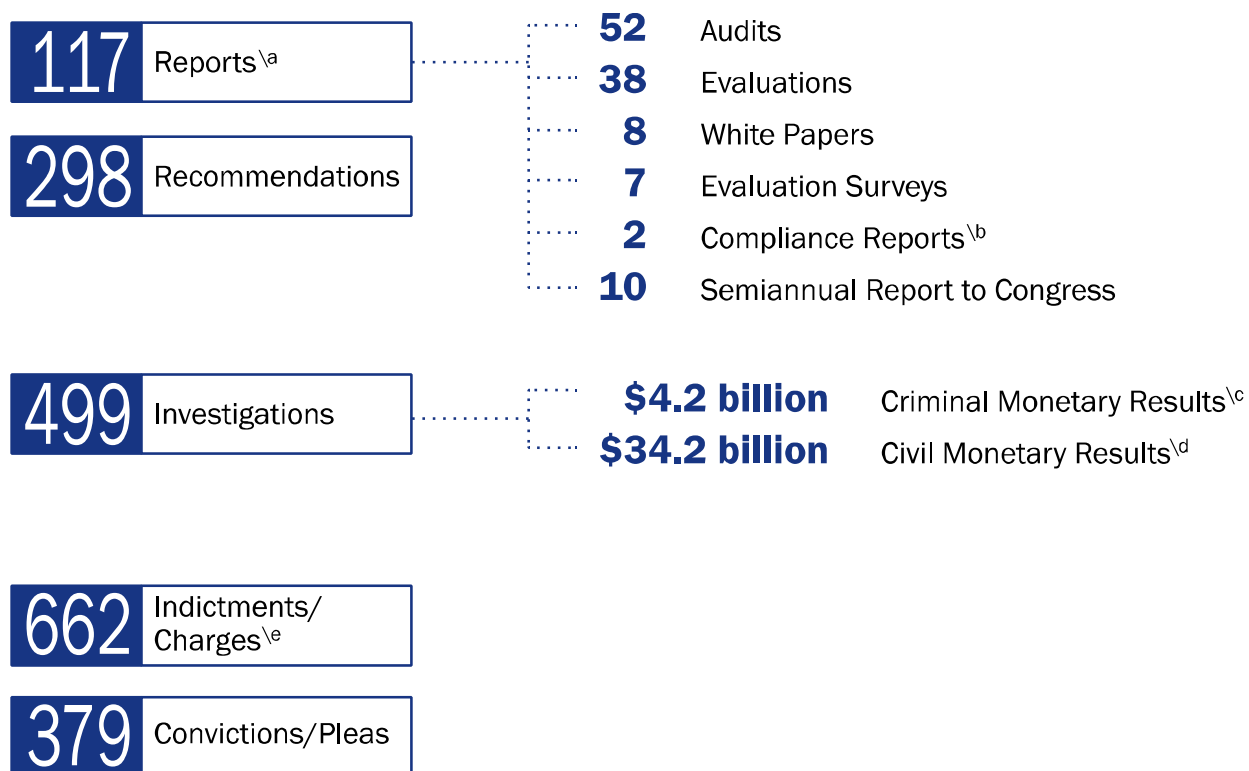
OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency in order to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust enforcement efforts to protect the interests of the American taxpayers.

Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we strive to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they go, without fear or favor; report findings that are supported by sufficient evidence in accordance with professional standards; and recommend actions tied to our findings. Our work is risk-based, credible, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and its conservatorship of Fannie Mae and Freddie Mac). The U.S. taxpayers have invested \$187.5 billion in Fannie Mae and Freddie Mac; our oversight role thus reaches third parties (such as lenders and servicers) who deal with those entities to ensure that they are satisfying their obligations to these entities and that taxpayer monies are not wasted or misused.

We emphasize transparency in our oversight work to the fullest reasonable extent to foster accountability in the use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator and the need for corrective action.

OIG's Accomplishments October 2010 through September 2015



^a Excludes Systemic Implication Reports

^b Includes both reviews and special project reports

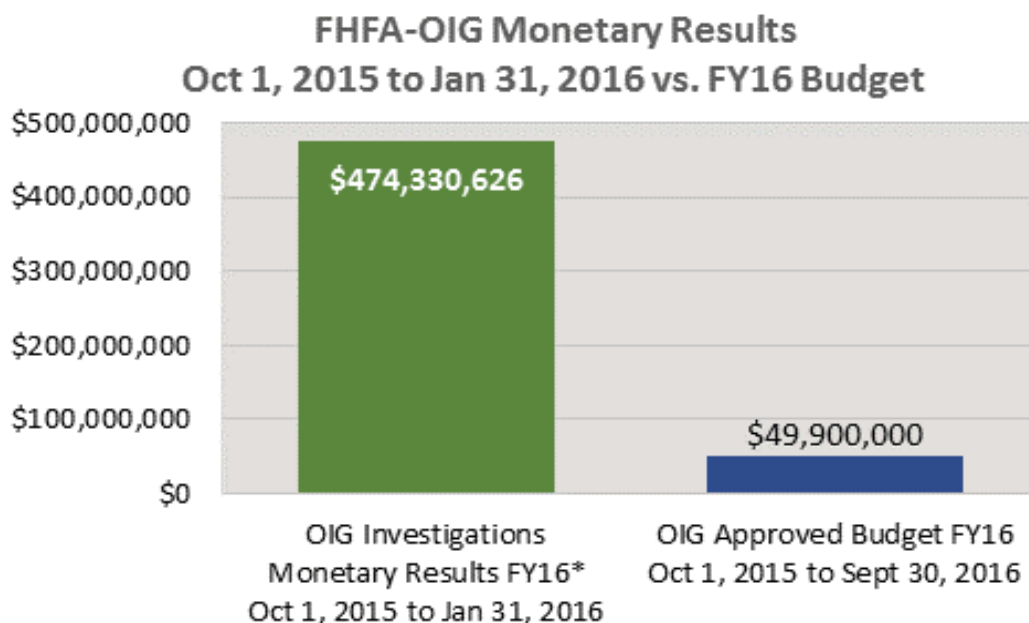
^c Includes Criminal Restitution and Forfeitures/Fines/Special Assessments and Seizures

^d Includes Settlements/Recoveries/Fines

^e Superseding indictments are included in this total

The Federal Housing Finance Agency (FHFA or Agency), Office of Inspector General (OIG) requests \$49,900,000 and 155 Full Time Equivalents (FTE) for its budget for FY 2017. These operational costs will be funded by the annual assessment that FHFA levies on the entities that it regulates pursuant to 12 U.S.C. § 4516. This request represents no change from OIG's FY 2016 budget of \$49,900,000 and 155 FTE.

In the first four months of FY 2016 (October 1, 2015, through January 31, 2016) OIG investigations have already resulted in monetary results of \$474,330,626. The graphic below illustrates OIG monetary results thus far in FY 2016 compared to OIG's total approved budget for FY 2016.



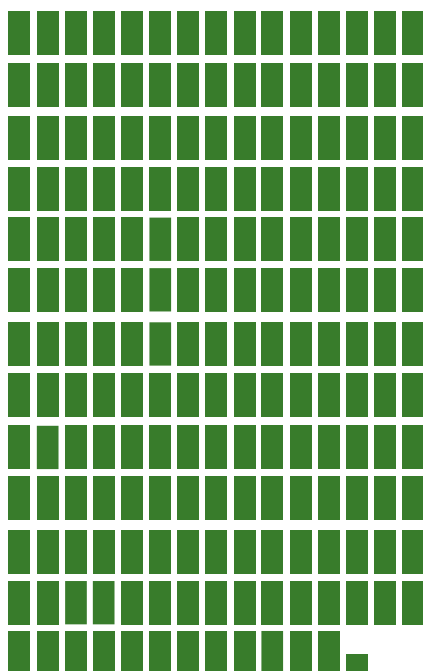
**Includes criminal fines, restitution, forfeiture, and civil settlements*

From its inception in October 2010 through September 30, 2015, OIG investigations have obtained monetary results of \$38,400,000,000. The graphic below illustrates OIG civil and criminal monetary results since its inception compared to its total approved budget.

FHFA-OIG Monetary Results October 2010 to September 30, 2015

OIG Criminal and Civil Monetary Results


\$38,400,000,000



OIG Total Approved Budgets*

\$197,548,000



KEY:  = \$200 million

*Actual operating budget may be less

I. FHFA-OIG

Our mission is to promote economy, efficiency, and effectiveness of FHFA and protect FHFA, the Enterprises in its conservatorship, and the entities it regulates against fraud, waste, and abuse, through independent, relevant, timely, and transparent oversight and robust law enforcement efforts. OIG seeks to be a voice for, and protect the interests of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

To best leverage our resources to strengthen OIG's oversight, we determined to focus our audit and evaluation efforts on assessing existing controls on those programs and operations that we determined to pose the greatest financial, governance, and/or reputational risk to FHFA, the Enterprises, and the FHLBanks. Those risks are conservatorship operations, Enterprise supervision, counterparties (nonbank sellers), and information technology security. We created an Office of Compliance in December 2014 to conduct verification testing of closed recommendations to independently verify whether the Agency has implemented in full the corrective actions it represented to OIG that it intended to take. This approach enables OIG to prioritize the most critical risks for scrutiny, offer targeted recommendations for corrective actions, and conduct validation testing to ensure the recommendations are fully implemented and yield meaningful change.

OIG also furthers its mission through vigorous law enforcement efforts. Through the end of FY 2015, 662 charges have been brought against defendants involved with crimes investigated by OIG, of which 379 individuals have been convicted or pled guilty and 286 have been sentenced. Additionally, OIG saw significant developments in a number of its cases; for example, a lead defendant was sentenced to 20 years in prison for his role in a loan modification scheme that preyed on distressed homeowners in danger of losing their homes, and three individuals were indicted for their alleged role involving fraud in connection to the sales of residential mortgage-backed securities bonds. Through FY 2015, OIG has obtained \$34.2 billion in civil monetary results and \$4.2 billion in criminal monetary results.

A. OVERVIEW

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA).

HERA charged the newly created FHFA to serve as regulator of Fannie Mae and Freddie Mac (the Enterprises) and of the Federal Home Loan Banks (FHLBanks) (collectively, the government-sponsored enterprises, or the GSEs) and enhanced its resolution authority.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into conservatorship in an effort to stabilize the residential mortgage finance market. Concurrently, the Department of the Treasury (Treasury) entered into Senior Preferred Stock Purchase Agreements (PSPAs) with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have injected a total of \$187.5 billion since 2008. Initially, conservatorship was intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their eighth year, FHFA’s conservatorships of the Enterprises are of unprecedented scope, scale, and complexity. FHFA currently serves in a unique role: it is both conservator and regulator of the Enterprises and regulator of the FHLBanks.

HERA also amended the Inspector General Act of 1978 to establish an Office of Inspector General (OIG) for FHFA. OIG began operations on October 12, 2010, when its first Inspector General was sworn in. OIG is dedicated to promoting the economy, efficiency, and effectiveness of the programs and operations of FHFA; preventing and detecting fraud, waste, and abuse in FHFA’s programs and operations; reviewing and commenting on pending legislation and regulations; and bringing civil, criminal, and administrative actions against those, whether inside or outside of the government, who commit fraud, waste, or abuse in connection with the programs and operations of FHFA. We are dedicated to protecting the American taxpayer by conducting audits, evaluations, compliance tests, and investigations that promote economy and efficiency in the management of FHFA’s programs and operations. We view our oversight role both prospectively (by advising FHFA on issues relating to internal controls and fraud prevention) and retrospectively (by assessing the effectiveness of FHFA activities over time and recommending improvements).

Under the Inspector General Act, OIG is charged with oversight of FHFA actions. Our oversight tracks the responsibilities exercised by FHFA. With respect to the Enterprises, as conservator under HERA, FHFA has discretionary or permissive powers, not specific mandates. FHFA is authorized to:

- Succeed to all rights and powers of any stockholder, officer, or director of the Enterprises;
- Operate the Enterprises; and

- Take such action as may be:
 - Necessary to put the Enterprises in a sound and solvent condition; and
 - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.

Where FHFA exercises its conservatorship authority to decide specific issues, such as approval of the Enterprises' annual operating budgets, OIG's responsibilities necessarily include oversight of FHFA's decisions to determine whether FHFA is fulfilling its statutory duties and responsibilities and safeguarding taxpayers.

In November 2008, FHFA delegated authority for general corporate governance and day-to-day matters to the Enterprises for reasons of efficiency, concordant goals with the Enterprises, and operational savings. Any aspect of this delegation of authority may be revoked by FHFA at any time. When an Enterprise takes action pursuant to a delegated grant of authority from FHFA, such as the hiring of a Chief Audit Executive, OIG's oversight role includes FHFA; the Enterprises, recipients of \$187.5 billion in taxpayer monies, to ensure that they are satisfying their obligations under the authority delegated to them in the conservatorships; and third parties (such as lenders and servicers) to ensure that they are satisfying their obligations to the Enterprises. Through oversight, transparent reporting of results, and robust enforcement, OIG seeks to be a voice for, and protect the interest of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

B. OIG'S OVERSIGHT STRATEGY

The primary mission of OIG is to conduct independent audits, evaluations, and investigations to promote economy and efficiency and to prevent and detect fraud, waste, abuse, and mismanagement in the programs and operations of FHFA, including its conservatorship of the Enterprises.

Risk-Focused Strategy

OIG's mandate is broad and comprehensive and encompasses oversight of the full scope of the Agency's programs and operations, including its conservatorship of the Enterprises. Our work plan is dynamic and will adapt to a changing risk profile. To best leverage our resources to strengthen OIG's oversight, we determined to focus our resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks.

Work Plan

The results of our strategic planning process led us to revise the Audit and Evaluation Plan in February 2015 to focus on four areas of risk:

- ***Conservatorship Operations.*** Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration. As conservator, the Agency has expansive authority to make business and policy decisions for two large, complex companies that dominate the secondary mortgage market and the mortgage securitization sector of the U.S. housing finance industry and thus influence and affect a large segment of the U.S. economy.
- ***Enterprise Supervision.*** FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises to ensure their safe and sound operation. DER is responsible for designing a comprehensive, risk-based supervisory strategy, conducting ongoing monitoring or targeted examinations of risk areas, and monitoring Enterprise remediation of deficiencies identified during examinations.
- ***Counterparties (Nonbank Sellers).*** The Enterprises have been acquiring an increasing portion of their single-family mortgage business volume directly from nonbank sellers, which may not have the same financial strength, liquidity, or operational capacity as their larger depository institution counterparties. As a result, the Enterprises face increased risk that these nonbank counterparties could fail to perform their obligations.
- ***IT Security.*** FHFA's and the GSEs' computer systems, software, and networks may be vulnerable to cyber attacks, breaches, unauthorized access, misuse, computer viruses or other malicious codes, or other attempts to harm them or misuse or steal confidential information. Among other things, a breach of their security systems could disrupt their business operations or result in the unauthorized disclosure or misuse of confidential and other information.

Our revised Audit and Evaluation Plan is available at www.fhfaoig.gov/Reports/AuditAndEvaluationPlan. The work plan for each identified risk has been designed to produce reports that can be generated promptly both to increase transparency and to improve the programs and operations of the Agency without compromising the rigor of the methodology.

C. OIG'S ORGANIZATIONAL STRUCTURE

OIG consists of the Inspector General, senior staff, and OIG offices, principally: the Office of Audits, Office of Evaluations, Office of Investigations, and the Office of Compliance and Special Projects. Additionally, OIG's Executive Office includes the Office of Chief Counsel, the Office of External Affairs, the Office of Communications, and OIG's Equal Employment

Opportunity Program Office and provides organization-wide supervision; the Office of Risk Analysis, the Office of Administration, and the Office of Internal Controls and Facilities provide organization-wide support.

Executive Office

The Executive Office (EO) provides leadership and programmatic direction for OIG's offices and activities.

EO includes the Office of Chief Counsel (OC), which serves as the chief legal advisor to the Inspector General and provides independent legal advice, counseling, and opinions to OIG about its programs and operations. OC also reviews audit and evaluation reports for legal sufficiency and compliance with OIG's policies and priorities. Additionally, it reviews drafts of FHFA regulations and policies and prepares comments as appropriate. OC also coordinates with FHFA's Office of General Counsel and manages OIG's responses to requests and appeals made under the Freedom of Information Act (FOIA) and the Privacy Act.

The Office of External Affairs is also within EO, and it responds to inquiries from members of Congress.

The Office of Communications is also within EO, and it responds to inquiries from the press and public.

Additionally, OIG's Equal Employment Opportunity Program is within EO, and it oversees compliance with federal requirements for equal opportunities in the workplace.

Office of Risk Analysis

To exercise rigorous oversight, we must identify emerging risks and revise our work plan as new risks emerge and existing risks are well-controlled. Our Office of Risk Analysis (ORA) uses data mining, quantitative data, and analysis of data and relevant information to identify and monitor emerging and ongoing areas of risk. The identification, analysis, and prioritization of risk areas allow us to utilize resources strategically and realign our Audit and Evaluation Plan, in real time, to address those risks.

Office of Audits

The Office of Audits (OA) is tasked with designing and conducting independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. For example, the Improper Payments Information Act of 2002 (IPIA), as amended, requires OIG annually to audit FHFA's compliance with IPIA during the prior fiscal year. Additionally, the Federal Information Security

Management Act of 2002 (FISMA) directs OIG annually to audit whether FHFA's and OIG's information security programs and practices meet FISMA's security requirements.

Under the Inspector General Act, inspectors general are required to comply with the Government Accountability Office's (GAO) *Government Auditing Standards* (Yellow Book). OA performs its audits and attestation engagements in accordance with the Yellow Book.

Office of Evaluations

The Office of Evaluations (OE) conducts program and management reviews and makes recommendations for improvement where applicable. OE provides independent and objective reviews, studies, survey reports, and analyses of FHFA's programs and operations. The Inspector General Reform Act of 2008 requires that inspectors general adhere to the *Quality Standards for Inspection and Evaluation* (Blue Book), issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the Blue Book.

Office of Investigations

Staffed with special agents, investigators, analysts, prosecutors, and attorney advisors, the Office of Investigations (OI) conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies or resources in connection with programs and operations of the Agency and the GSEs. OI pursues wrongdoers within the Agency and the GSEs as well as individuals and entities that make misrepresentations to the Enterprises in connection with loans that the Enterprises buy or guarantee.

OI also takes the lead in responding to referrals made to OIG's hotline through telephone, email, website, and in-person complaints, abiding by all applicable whistleblower protections set forth in the Inspector General Act. Our hotline is staffed by a third-party vendor and provides easy access for individuals to report concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with programs and operations of the Agency. During FY 2015 our hotline processed 535 hotline complaints. When OI determines that a full investigation is not warranted, it works closely with OA and OE to determine whether an audit or evaluation project is advisable.

To maximize criminal and civil law enforcement, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the U.S. Postal Inspection Service, the Federal Bureau of Investigation (FBI), the Department of Housing and Urban Development Office of Inspector General (HUD-OIG), the Secret Service, IRS-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

Office of Compliance and Special Projects

While federal inspectors general (IGs) are often referred to as “watchdogs” for their respective agencies, the Inspector General Act does not authorize an IG to compel its respective agency to adopt new policies or processes or take personnel actions to correct shortcomings identified in audits, evaluations, and investigations of agency programs and operations. Rather, the Act empowers IGs to recommend remedial actions to correct such shortcomings and to track whether the affected agency agrees to adopt and implement the recommended remedial actions. IG recommendations flow from findings premised on facts found during an audit, evaluation, or investigation.

Office of Management and Budget (OMB) *Circular No. A-50 Revised* sets forth an agency’s responsibilities once an IG has issued a recommendation. An agency is generally expected to “assign a high priority to the resolution” of the recommendation. Once the agency determines to adopt the recommendation and takes steps to begin the implementation process, the agency reports its decision to the IG, and the IG typically relies on materials and representations from the agency to close the recommendation. Indeed, recommendations may be closed based on an agency’s representations alone. As stated in the *Quality Standards for Inspection and Evaluation*, “management notification that an action has been completed within the agreed-on time constitutes reasonable assurance and can be the basis for ‘closing’ an action for follow-up purposes.”

Stakeholders’ respect for and trust in IG reports and recommendations is grounded in the recognition that IGs report the facts, as found, and recommend corrective actions based on those facts. Lacking enforcement authority under the Inspector General Act, IGs necessarily rely on materials and representations made by their respective agencies regarding the implementation of remedial measures.

This OIG has issued 298 recommendations since it began operations in 2010. Each recommendation was presented for FHFA’s consideration; FHFA determined whether to accept each recommendation; and, for those recommendations it accepted, FHFA reported to OIG what actions it had taken, and planned to take, to implement the recommendation. In some cases, recommendations made by this OIG were closed based largely on FHFA’s representations that implementation was underway.

In December 2014, this OIG created the Office of Compliance and Special Projects (OCo) to address the reputational risk arising from the practical necessity of closing recommendations based upon representations from the Agency. Staffed with experienced auditors, evaluators, attorneys, and investigators from OIG’s offices, OCo is tasked with conducting verification testing of closed recommendations to independently verify whether FHFA has implemented in full the corrective actions it represented to OIG that it intended to take and publishes the results of its testing in “compliance reviews.” These compliance reviews (the first of which was

published in FY 2015 and is discussed below) permit FHFA, Congress, and the public to assess the impact of OIG's recommendations, as well as the efficacy of the Agency's implementation of them. To the best of our knowledge, establishment of this function, within an IG office, appears to be a new approach in the federal IG community.

OCo also plays a support role within OIG. It consults with OA, OE, and OI in the development of recommendations and in decisions to close existing recommendations. OCo developed and now maintains the Recommendation Tracking System, which identifies all OIG recommendations, contains all documentation provided by FHFA in support of its implementation efforts, and provides a comprehensive and up-to-date source of information about OIG recommendations and is available to all OIG staff. Through the end of FY 2015, OCo has consulted with OA, OE, and OI on whether to close 40 separate recommendations from 16 OIG reports.

At the request of the IG, OCo also performs high-value, short-turnaround special projects. OCo's first such assignment was to respond to a congressional inquiry concerning FHFA's FOIA response process. Its report (see page 24) was based on its factual assessment of the Agency's FOIA process.

Office of Administration

The Office of Administration (OAd) manages and oversees OIG administration, including budget, human resources, financial management, procurement, and IT. For human resources, OAd develops policies to attract, develop, and retain exceptional people, with an emphasis on linking performance planning and evaluation to organizational and individual accomplishment of goals and objectives. OAd also coordinates budget planning and execution and oversees all of OIG's procedural guidance for financial management and procurement integrity.

Office of Internal Controls and Facilities

The Office of Internal Controls and Facilities (OICF) manages and oversees OIG's workplace safety, facilities, and internal controls.

D. OIG'S ACCOMPLISHMENTS DURING FY 2015

During FY 2015, OIG issued audits, evaluations, compliance reviews, closing memoranda, and white papers that addressed numerous critical issues for FHFA, its programs, and operations. OIG also conducted investigations that led to convictions and significant recovery orders and settlements.

A comprehensive list of all OIG publications and copies of public OIG reports, memoranda, and white papers issued from October 2010 to the present are accessible on our website:

Public Reports: www.fhfaoig.gov/Reports/AuditsAndEvaluations

Semiannual Reports to Congress: www.fhfaoig.gov/Reports/Semiannual

Miscellaneous Publications: www.fhfaoig.gov/LearnMore

Selected Activities During FY 2015

During FY 2015, OIG directed audit and evaluation resources toward four areas of greatest risk to the Agency, the Enterprises, and the FHLBs: conservatorship operations; supervision of the Enterprises; oversight of non-depository financial institutions, hereinafter “nonbank sellers”; and information technology (IT) security. We also continued our vigorous civil, criminal, and administrative enforcement activities against those, inside and outside of government, who waste, steal, or abuse taxpayer monies involving Agency, Enterprise, or FHLBank operations. Below, we provide a brief summary of selected OIG activities during FY 2015.

1. OIG’s Audit, Evaluation, and Compliance Activities

OIG actively strives to fulfill its mission through audit, evaluation, and compliance projects and reports and through investigations. Our Audit and Evaluation Plan identifies the four risk areas on which our audit and evaluation projects have been focused.

a. Conservatorship Operations

When then-Secretary of Treasury Henry Paulson announced FHFA’s decision to place the Enterprises into conservatorships in September 2008, he explained that the conservatorships were meant to be a “‘time out’ where we have stabilized the” Enterprises, during which the “new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market.” The current FHFA Director has echoed that view in recognizing that conservatorship “cannot and should not be a permanent state” for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the “time out” period for the conservatorships has now entered its eighth year.

Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration over two entities that dominate the secondary mortgage market and the mortgage securitization sector in the United States, and thus affect the entire mortgage finance industry. The lack of consensus in Congress about the nation’s future mortgage finance system and the role, if any, for the Enterprises may mean that the Enterprises will continue to operate under FHFA’s conservatorship for a considerably longer period.

While in conservatorship, the Enterprises have required \$187.5 billion in financial investment from Treasury to avert their insolvency and, through September 2015, the Enterprises have paid to Treasury approximately \$239 billion in dividends on its investment. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the Enterprises have grown in size during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is approximately 70%. The Enterprises' combined total assets are approximately \$5.2 trillion and their combined debt exceeds \$5 trillion. Although market conditions have improved and the Enterprises have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge; the future performance of their business segments; the elimination by 2018 of a capital cushion to buffer against losses; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards.

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk.

Oversight of Delegated Matters

Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, 12 U.S.C. § 4617(b)(2)(D), FHFA has delegated authority for many matters, both large and small, to the Enterprises. As conservator, FHFA is ultimately responsible for all decisions made and actions taken by the Enterprises, even with respect to delegated matters, pursuant to its revocable grant of delegated authority, and FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises.

Historically, FHFA's oversight of delegated matters, in its role as conservator, has largely been limited to attendance at Enterprise internal management and board meetings as observers and discussions with Enterprise managers and directors. For the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise delegated actions, including actions taken by the Enterprises to implement conservatorship directives.

Limited FHFA oversight of matters delegated to the Enterprises carries significant risk because of the significant change in the governance environment at the Enterprises caused by the conservatorship. Typically, boards of public companies are vested with the power or duty to manage, direct, or oversee the company's business. Here, FHFA, as conservator, has succeeded to all rights, titles, powers, and privileges of the Enterprises and of any shareholder, officer, or director of the Enterprises, and the Enterprises recognize that their directors "no longer ha[ve]

the power or duty to manage, direct or oversee [the] business and affairs” of the Enterprises. In public securities filings, the Enterprises acknowledge that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. The Enterprises’ PSPAs with Treasury largely nullify typical corporate governance incentives to improve shareholder returns by controlling costs, increasing earnings, and building corporate net worth. Pursuant to the Enterprises’ agreements with Treasury, the Enterprises must sweep any excess of net worth (over a small capital reserve) to Treasury, and this mandatory sweep means that controlling costs and increasing net income will not increase the net worth of the Enterprises. As a result, the Enterprises’ boards lack the same incentives as boards of most public companies to build capital and enhance stock performance by controlling costs and increasing earnings.

With respect to assessing the reasonableness of board activities, in a report OIG issued on March 11, 2015, OIG assessed the process used by Fannie Mae’s Audit Committee of its Board of Directors to fulfill its delegated responsibility to select a Chief Audit Executive (CAE)—the senior executive who heads Internal Audit—which is a critical element of Fannie Mae’s risk management controls. OIG found that the Audit Committee’s process was haphazard, at best: the Committee waited several months after it learned that the CAE position would soon become vacant before it began a search for possible CAE candidates; ignored a management-prepared Succession Plan for senior executive positions that concluded that no internal candidate across Fannie Mae was “ready now” for the CAE position and a permanent successor would require an “external” candidate; limited its search to internal candidates; relied on Fannie Mae’s Chief Human Resources Officer to identify qualified internal candidates even though he and others in senior management concluded, two months earlier, that there was no internal candidate for the CAE position; and selected the Chief Credit Officer of Fannie Mae’s largest business unit, the Single-Family Business Group, even though he had not been identified as a candidate for the position in senior management’s Succession Plan, lacked the professional audit experience deemed “preferable” in the CAE Position Description, and was burdened by significant conflicts because of his management responsibilities in the Single-Family Business Group. OIG also found that the Audit Committee did not develop a plan and comprehensive controls to address the candidate’s conflicts of interest. (See OIG, *FHFA’s Oversight of Governance Risks Associated with Fannie Mae’s Selection and Appointment of a New Chief Audit Executive* (EVL-2015-004, March 11, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.)

As a consequence, Fannie Mae hired a candidate who was burdened by conflicts without controls in place to mitigate them, and FHFA, as conservator, exercised no oversight over Fannie Mae’s exercise of its delegated responsibility. Even after FHFA, acting in its capacity as regulator, directed the Audit Committee to assess the candidate’s conflicts and put compensating controls in place, the Committee declined to complete the requested assessment and adopt controls in a timely manner. For more than one year after the conflicted CAE began work, Fannie Mae’s Internal Audit was not in full conformance with governing standards, but FHFA failed to impose any consequences on either the individual Audit Committee directors or on Fannie Mae.

We made five remedial recommendations to address these shortcomings and improve FHFA's oversight of corporate governance at the Enterprises, with which FHFA agreed. By September 30, 2015, FHFA:

- Reviewed and revised internal FHFA procedures to ensure that the FHFA Director is informed of significant issues and concerns by FHFA staff on all conservatorship and supervisory matters that require the Director's decision;
- Communicated in writing to Fannie Mae its expectations of enhancements to Audit Committee processes; and
- Directed Fannie Mae to retain an independent third-party consultant to conduct an assessment of the Audit Committee's effectiveness and identify recommendations for improvements, and this assessment is underway.

FHFA's long-standing practice is for FHFA employees to attend Enterprise internal management and board meetings as observers, review materials provided by the Enterprises, and participate in discussions with Enterprise managers and directors. Prior to OIG's issuance of its evaluation report on Fannie Mae's hiring of a new CAE, OIG found that FHFA lacked a sufficiently robust internal communications process to share the information obtained by different FHFA employees with senior FHFA officials regarding matters delegated to the Enterprises. Lack of information sharing impedes the Agency's ability to oversee the Enterprises in carrying out their delegated responsibilities. As that evaluation report discusses, OIG learned from an FHFA employee that he raised concerns regarding the CAE candidate's conflicts of interest to his superiors, but nothing in the record suggested that these concerns were raised with FHFA's then-Acting Director. Had those issues been socialized within senior FHFA management, FHFA senior officials would have been in a position to direct Fannie Mae to assess the candidate's conflicts and put controls in place to mitigate them before he was hired. FHFA committed to enhance its internal processes for information sharing.

Oversight of Non-delegated Matters

As stated above, as conservator, FHFA can retain decisional authority for Enterprise matters as well as revoke prior delegations of authority. Historically, FHFA has retained decisional authority for matters with significant monetary or reputational impact. It is critical for FHFA to develop and put into place strong internal processes for information sharing and analysis to strengthen its decision-making processes.

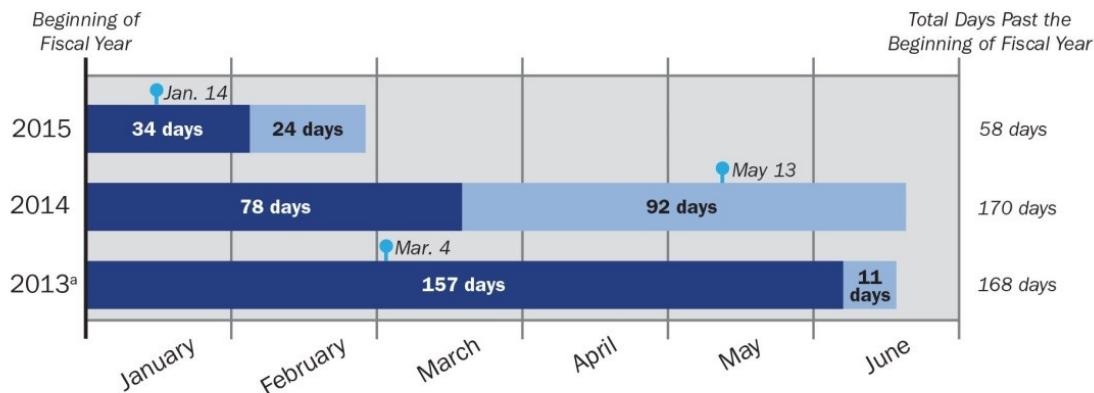
Under FHFA Director Watt, FHFA has made a number of enhancements to its existing internal processes to improve the information flow to the FHFA Director with respect to non-delegated matters. However, a recent OIG evaluation report assessing the effectiveness of FHFA's existing budget review and approval process for the Enterprises' annual operating budgets found that additional improvements are warranted.

When the conservatorships began, FHFA delegated to the Enterprises the authority to establish their annual operating budgets. In November 2012, FHFA rescinded that delegation and determined to require review and approval of the Enterprises' annual operating budgets. FHFA's stated purpose for retrieving authority to review and approve the Enterprises' budgets was to ensure that the budgets aligned with FHFA's strategic direction and safety and soundness priorities. Between 2012 and 2015, the Enterprises' budgets have grown significantly. In 2012, the last year before FHFA required that the Enterprises obtain its approval for their budgets, the combined spending by both Enterprises totaled \$3.9 billion. For fiscal year 2015, FHFA approved Enterprise spending totaling \$5.1 billion—an increase of more than \$1.2 billion, or about 31%, over 2012 spending. OIG conducted an evaluation to determine whether FHFA's budget approval process has been effective in ensuring that the budgets align with the Agency's strategic initiatives and safety and soundness priorities.

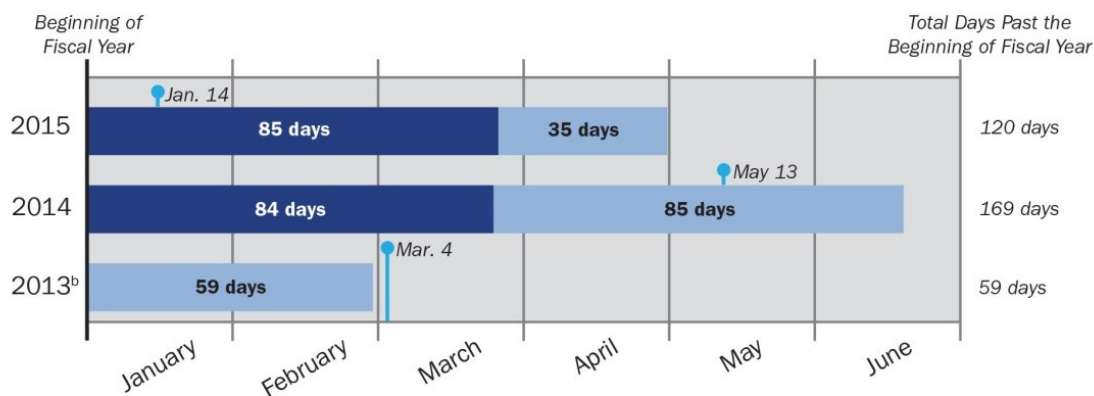
OIG found that FHFA's budget review and approval process failed to achieve FHFA's stated purpose for reasserting its approval authority because of late timing, cursory-level analysis, and inadequate resources. (See OIG, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose* (EVL-2015-006, September 30, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) For the last three years, all Enterprise-proposed operating budgets but one were submitted to FHFA after the start of the fiscal year. As a result, the Enterprises operated without conservator-approved budgets in 2013, 2014, and 2015 for periods ranging from almost two months to almost six months. The timing of budget submissions and approvals is shown in Figure 1 (see page 14). Deficiencies in FHFA's practices prevented FHFA from exercising effective control over Enterprise spending in both amount and direction.

Figure 1. The Timing of Enterprise Board and FHFA Approval of Enterprise Operating Budgets, 2013-15¹

Fannie Mae



Freddie Mac



■ No. of days before Enterprise Board submits budget to FHFA
■ No. of days before FHFA approves budget
● Conservatorship Scorecard publication date

^a Fannie Mae submitted its board-approved proposed 2013 operating budget to FHFA on January 25, 2013, and was directed by FHFA that same day to reduce its overall year-over-year budget increase from 14% to below 10%. Fannie Mae revised its proposed 2013 budget and resubmitted the proposed budget on June 6, 2013.

^b Freddie Mac submitted its proposed budget for 2013 to FHFA on December 21, 2012.

Regarding the quality of FHFA's review of the Enterprises' proposed budgets, OIG found that FHFA's analysis was largely based on spending totals organized into broad categories by the Enterprises and that high-level summary information significantly limits FHFA's ability to

¹ OIG, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*, EVL-2015-006, at 13 (Sept. 30, 2015). Accessed: Feb. 5, 2016, at www.fhfa.gov/Content/Files/EVL-2015-006.pdf.

analyze or understand the budgets with any granularity. As a consequence, FHFA's budget review and approval process imposed virtually no budget control on the Enterprises, and FHFA's approval of the budgets endorsed Enterprise spending that was not well understood by FHFA. FHFA's Division of Conservatorship (DOC) recognized that the resources devoted to review and summarize the Enterprises' proposed budgets and to prepare DOC's action recommendation on them were insufficient to perform substantive and critical analyses. OIG determined that FHFA's approval of the Enterprises' budgets, based on a DOC review that was constrained in scope and resources, did not achieve FHFA's stated purpose to ensure that the budgets aligned with FHFA's strategic direction and safety and soundness priorities and created the risk that FHFA approved Enterprise spending that was not well understood by it.

OIG recommended that FHFA: (1) direct each Enterprise to submit its proposed operating budget and supporting materials for the next fiscal year so that FHFA has sufficient time before the fiscal year begins to adequately analyze the proposals; (2) revise the existing budget review process and staff the review process with employees who have the qualifications and experience needed for critical financial assessments of the proposed Enterprise budgets, which will permit FHFA to determine whether each Enterprise's budget aligns with FHFA's strategic direction and its safety and soundness priorities; (3) set a date certain during the first quarter of 2016 by which FHFA will take final action on each proposed annual operating budget for 2016 and approve the budget by that date; and (4) set a date certain, prior to January 31 of each subsequent fiscal year, by which FHFA will take final action on each proposed annual operating budget and approve the budget by that date.

In its management response, FHFA accepted the first three recommendations and "generally" accepted the fourth. FHFA committed to accelerate the time line for budget submissions for the 2016 budget and to require the Enterprises to submit board-approved budgets by December for fiscal years 2017 and beyond. FHFA also committed to increasing staff resources assigned to budget review and to hiring staff members with relevant technical qualifications and experience. FHFA will advise OIG when it approves the Enterprises' 2016 operating budgets, and has set January 31 of each subsequent year as a target date by which to take final action on the Enterprises' proposed budgets going forward. In the event circumstances justify delay in taking final action by January 31, FHFA will document the reasons for any such delays and take final action on the proposed budgets as soon as practicable. OIG will conduct follow-up activities as appropriate to verify FHFA's completion of those efforts.

b. Enterprise Supervision

As noted earlier, FHFA plays a unique role as both conservator and as regulator for the Enterprises. FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. FHFA's supervisory program assesses the financial safety and soundness and overall risk management practices of each Enterprise.

OIG determined that FHFA's supervisory activities for the Enterprises, which remain in conservatorship, is a critical risk. During FY 2015, OIG released two reports in which we assessed various aspects of FHFA's supervisory activities.

Quantity and Quality of Examiners

In 2011, OIG reported that both DBR and DER lacked a sufficient number of examiners and that the Agency lacked an adequate number of commissioned examiners, both of which placed the efficiency and effectiveness of FHFA's examination program at risk. *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (EVL-2011-005, September 23, 2011). In response to that report, FHFA committed to add examiners and has added examiners. FHFA has long recognized that its examiners require certain skills and technical knowledge necessary to evaluate the condition and practices specific to them. In that same report, we assessed the quality of FHFA's examiners and found, among other things, that two-thirds of FHFA examiners were not commissioned: they had not completed a structured program of classroom and on-the-job training designed to provide technical competencies and practical examination experience. The Agency acknowledged that commissioned examiners were critical to strengthening the efficiency and effectiveness of its supervision of the regulated entities and that it lacked a sufficient number of commissioned examiners, and it agreed to monitor the development and implementation of an examiner commission program. In 2013, the Agency inaugurated its Housing Finance Examiner Commission Program (HFE Program) that was designed to produce, in the four years that followed, a corps of commissioned examiners for its supervision of the Enterprises and of the FHLBanks.

In its first published compliance review, OIG reported on the results of its verification testing of the Agency's actions to implement FHFA's HFE Program. (See *OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program* (COM-2015-001, July 29, 2015), online at www.fhfaig.gov/Reports/AuditsAndEvaluations.)

OIG found that the HFE Program was not on track to meet its central objective—to produce commissioned examiners who were qualified to lead major risk sections of FHFA's examinations. Specifically, we found that only one of the 66 examiners enrolled in the HFE Program had completed any required on-the-job training assignments during 2014 and early 2015 and that over 20% of the enrolled examiners completed no more than one of the required courses (see Figure 2, page 17). Many of the enrolled examiners failed to progress in meeting the HFE Program's requirements during its first 19 months of operation, and, therefore, their ability to earn HFE Program commissions within the projected time frame of four years or less is at risk.

Figure 2. Course Completion as of March 2015 by Enrolled Examiners²

Completed Two or More Courses	Completed One Course	Completed No Courses	Total
46	7	7	60 ^a

^a Excludes six examiners who enrolled after October 2014 since they may not have had the opportunity to complete required courses yet. *Source:* FHFA records.

OIG recommended that the Agency determine the causes of these shortfalls and implement a strategy to ensure that the HFE Program fulfills its central objective. FHFA accepted the recommendation.

Accurate, Complete, and High-Quality Examinations

Federal financial regulators, including FHFA, have long recognized that comprehensive internal quality control reviews of examinations are a critical internal control to ensure that examination findings and conclusions are adequately supported and to assure the regulator that its examinations are accurate, complete, and of uniform high quality. In October 2011, FHFA’s Office of Quality Assurance (OQA), which is tasked with conducting internal reviews of the FHFA divisions that perform the Agency’s statutory examination and regulatory functions to enhance the effectiveness of FHFA’s supervision, recommended that DER develop and implement a comprehensive quality control process for its examination reports of the Enterprises. DER agreed to that recommendation in September 2012. In March 2013, FHFA issued a Supervision Directive announcing that its examinations of its regulated entities—Fannie Mae, Freddie Mac, and the FHLBanks—were subject to a quality control program. DBR, responsible for supervision of the FHLBanks, established procedures for formal internal quality control reviews and conducts such reviews. OIG conducted an evaluation to determine if DER had implemented a formal quality control review process, as recommended by OQA and required by FHFA’s March 2013 Directive.

OIG found that almost four years after OQA issued its recommendation in 2011 and more than two years after FHFA issued its directive, DER had not established or implemented a quality control review process for its targeted examinations. (See OIG, *Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations* (EVL-2015-007, September 30, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) While DER committed to develop and implement a quality control review process for its examinations in September 2012, intermittent attempts to do so in 2013 and 2014 were met with strong resistance from DER’s staff and senior

² OIG, *OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program*, COM-2015-001, at 13 (July 29, 2015). Accessed: Feb. 5, 2016, at www.fhfaoig.gov/Content/Files/COM-2015-001_1.pdf.

management. Notwithstanding the lack of a comprehensive quality control review process for DER examinations, FHFA continued to report on its website that it had such a review process in place for all of its examination work. Absent such a review process, FHFA lacks adequate assurance that DER's targeted examinations are accurate, complete, and of uniform high quality, which puts the credibility of its examination program at risk.

On July 28, 2015, after completion of field work on this evaluation, FHFA advised OIG that DER adopted procedures for a quality control review process. OIG has not assessed whether the new procedures satisfy the requirements of FHFA's directive.

OIG recommended that FHFA: (1) ensure that DER's recently adopted procedures for quality control reviews meet the requirements of the March 2013 Directive and require DER to document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review; and (2) evaluate the effectiveness of the new procedures one year after adoption. FHFA agreed with the recommendations.

c. Nonbank Sellers

The Enterprises rely heavily on counterparties for a wide array of services, including mortgage sales and servicing. That reliance exposes the Enterprises to counterparty risk—that the counterparty will not meet its contractual obligations. Generally, FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its regulatory responsibilities.

There are numerous counterparty relationships with the Enterprises and each carries risk. One critical counterparty risk is the risk posed by loan originators that are not depository institutions (also called nonbanks). In recent years, the share of Enterprise single-family loan purchases from depository institutions has fallen while the share of purchases from nonbanks has risen. Based on OIG analysis of Enterprise data, from 2010 to 2014 Fannie Mae's share of purchases of single-family loans from non-depository institutions increased from 17% to 49% (\$187 billion), while Freddie Mac's share increased from 10% to 38% (\$97 billion).

Nonbank sellers are not regulated by federal financial regulatory agencies and may not have the same financial strength, liquidity, or operational capacity needed to meet their obligations to the Enterprises as depository institutions. As a result, there is a risk that a nonbank seller that fails to honor its contractual obligations, such as by selling loans to an Enterprise that do not comply with the Enterprise's lending requirements, would not have sufficient capital or liquidity to honor repurchase demands by the Enterprises for non-compliant loans. FHFA and other financial market participants must address the implications of a changing marketplace, including the attendant risks from nonbanks.

d. IT Security

In 2012, then-FBI Director Robert Mueller warned that “there are only two types of companies: those that have been hacked and those that will be. And even they are converging into one category: companies that have been hacked and will be hacked again.” Recent cyber security incidents affecting the federal workforce illustrate the scope of potential attacks. The Office of Personnel Management (OPM), which provides personnel services to federal government agencies, said in one incident 4.2 million current and former federal employees had personnel data stolen. In a separate but related incident, OPM said that 21.5 million people had their Social Security numbers and other sensitive information stolen from databases containing background investigation information.

As we explained in a white paper published in FY 2015,³ cyber attacks from outside an organization come in numerous forms and include attack vehicles such as malicious software aimed at gaining control of a system or efforts compromising the availability of a system or network by overloading the network. Broadly speaking, external cyber attackers can be grouped into three categories: “hacktivists,” who use digital tools to promote a political or social agenda; nation states; and criminals who may directly attack an organization’s system, or may attack indirectly through a third party such as a vendor, contractor, or counterparty.

IT vulnerabilities also can come from inside an organization. Employees and contractors, current or former, with authorized access to an organization’s network or data can exceed or misuse access and compromise the confidentiality, integrity, or availability of the organization’s information or information systems. Even when an organization builds high barriers to protect its electronic assets from outsiders, it may have few protections against insiders. Insider threats can be particularly potent because insiders typically have greater access to sensitive information, a better understanding of internal processes, and an understanding of potential weaknesses in controls.

Larry Zelvin, the former Director of the National Cybersecurity and Communications Integration Center at the Department of Homeland Security, opined at a cyber security roundtable that, of the 16 critical infrastructure sectors in this country, “finance probably wins the cyber security threat award.” He called the industry “a massive target” because it is “where the money is.” The Enterprises own or guarantee \$5 trillion in mortgage assets supporting the U.S. mortgage market. As part of their processes to guarantee or purchase loans, the Enterprises receive a substantial amount of information about mortgage borrowers, including financial data and personally identifiable information. Fannie Mae and Freddie Mac have been the subject of cyber attacks, although none caused significant harm. Similarly, the FHLBanks and their Office of Finance

³ OIG, *Cyber Security: An Overview of FHFA’s Oversight of and Attention to the Enterprises’ Management of Their IT Infrastructures*, WPR-2015-003 (Mar. 31, 2015). Accessed Feb. 5, 2016, at www.fhfaog.gov/Content/Files/WPR-2015-003.pdf.

have not experienced material losses related to cyber attacks or other breaches. All of the entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their information systems may be vulnerable to penetration. In this regard, the cyber threat to these entities is no different from the threat to other major financial institutions.

During FY 2015 we completed two audits assessing the existing information security programs at OIG and at FHFA. (See OIG, *Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program – 2015* (AUD-2015-003, September 9, 2015); and OIG, *Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2015* (AUD-2015-002, September 9, 2015), at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) Both audits were conducted in accordance with FISMA. OIG contracted with an independent public accounting firm, Kearney & Company, to perform separate FISMA evaluations of FHFA's and OIG's information security programs because FHFA and OIG maintain separate IT infrastructures. The objectives of these audits were to evaluate FHFA's and OIG's information security programs and practices, including compliance with FISMA and related information security policies, procedures, standards, and guidelines. Because information in these reports could be abused to circumvent FHFA's and OIG's internal controls, they have not been released publicly.

2. Statutory, Cooperative, and Stakeholder Reports and Responses

In addition to OIG's risk-based audit, evaluation, and compliance work, OIG completed other work required by statute, incident to cooperative efforts, and in response to stakeholder requests during FY 2015.

a. Statutory Audit: Possible Improper Payments

Federal agencies regularly make payments to program beneficiaries (or on behalf of them), grantees, vendors, and contractors. Some of these payments may be "improper" in one or more respects. For example, they may be made to the wrong recipients, in the wrong amounts, at the wrong times, or for the wrong reasons. The IPIA as amended requires federal agencies to periodically review, determine, estimate, and report programs and activities that may be susceptible to significant improper payments. Additionally, for improper payments estimated in excess of the greater of 2.5% of program outlay or \$10 million, an agency must report the potential actions it is taking to reduce and recapture improper payments.

OIG is required to review FHFA's improper payment reporting in its annual Performance and Accountability Report (PAR) to determine whether FHFA is in compliance with IPIA and to report this and other findings. However, not all IPIA requirements are applicable to FHFA. In fact, most requirements of IPIA and implementing guidance are not applicable to the Agency, as noted in Figure 3 (see page 21).

Figure 3. FHFA’s Compliance Under IPIA, As Amended, for Fiscal Year 2014⁴

Compliant Element	FHFA Action
The agency has published an annual PAR or Annual Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying materials required under guidance of OMB on the agency website.	FHFA published its 2014 PAR and included relevant information pertaining to improper payments.
The agency has conducted a program-specific risk assessment for each program or activity that conforms with the IPIA, as amended (31 U.S.C. § 3321 note) (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published improper payments estimates for programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published programmatic corrective action plans in its PAR or AFR (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published, and is meeting, improper payments reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has reported a gross improper payment rate of less than 10% for each program and activity for which an estimate was obtained and published in its PAR or AFR.	FHFA determined that this section of the IPIA, as amended, is not applicable.

After reviewing applicable statutes, executive orders, and other compliance requirements related to improper payments; reviewing various GAO audit reports; interviewing key FHFA officials; obtaining sufficient and appropriate evidence regarding compliance actions taken; and reviewing and assessing improper payment element requirements and related activities, OIG concluded that FHFA complied with the applicable statutory improper payment requirements, as well as related OMB criteria. (See OIG, *FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2014* (AUD-2015-001, May 14, 2015), online at www.fhfa.ig.gov/Reports/AuditsAndEvaluations).

⁴ OIG, *FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2014*, AUD-2015-001, at 9 (May 14, 2015). Accessed: Feb. 5, 2016, at www.fhfa.ig.gov/Content/Files/AUD-2015-001_0.pdf.

b. Lead in CIGFO Audit

OIG is a member of the Council of Inspectors General on Financial Oversight (CIGFO), which provides oversight of the Financial Stability Oversight Council (FSOC). By statute, CIGFO is authorized to evaluate the effectiveness and internal operations of FSOC, and it has been fulfilling this role by conducting annual audits of FSOC. CIGFO members (see Figure 4, page 23) submit proposed audit topics for consideration, and CIGFO selects the audit topic. While one CIGFO member leads the audit, the audit report only issues when it has been reviewed and approved by CIGFO.

OIG proposed to CIGFO that its annual audit should assess the extent to which FSOC is monitoring interest rate risk to the financial system. Interest rate risk is the exposure of an individual's or an institution's financial condition to changing interest rates and this risk affects every financial institution to some degree. Interest rate risk has been identified as a recurring potential threat in FSOC's annual reports since 2011. CIGFO approved OIG's proposed audit and convened a Working Group, led by OIG, to conduct the audit and CIGFO issued the audit report on July 27, 2015. (See CIGFO, *Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System* (CIGFO-2015-001, July 27, 2015), online at www.treasury.gov/about/organizational-structure/ig/Pages/Council-of-Inspectors-General-on-Financial-Oversight.aspx.)

FSOC monitors interest rate risk on an ongoing basis by facilitating the sharing of financial expertise and information among its members and member agencies and by making annual report recommendations. However, the CIGFO audit found that the lack of public documentation explaining FSOC's decisions to remove recommendations with respect to interest rate risk made in prior annual reports creates a lack of transparency around the process for removing recommendations.

Figure 4. FSOC Council Membership⁵

Federal and Independent Members	State Members
<ul style="list-style-type: none"> • Secretary of Treasury, Chairperson (v) • Chairman of the Board of Governors of the Federal Reserve System (v) • Comptroller of the Currency (v) • Director of the Consumer Financial Protection Bureau (v) • Chairman of the Securities and Exchange Commission (SEC) (v) • Chairperson of the Federal Deposit Insurance Corporation (FDIC) (v) • Chairperson of the Commodity Futures Trading Commission (v) • Director of FHFA (v) • Chairman of the National Credit Union Administration Board (v) • Director of the Office of Financial Research • Director of the Federal Insurance Office • Independent member with insurance expertise (v) <p><i>(v) Indicates Voting Member</i></p>	<ul style="list-style-type: none"> • State Insurance Commissioner • State Banking Supervisor • State Securities Commissioner

CIGFO recommended that FSOC document in its annual reports to Congress its rationale for removing prior year recommendations related to interest rate risk. (While the recommendation included in the report relates specifically to interest rate risk, it may be applied, as applicable, to other annual report recommendations.) The recommendation, if adopted and implemented, will increase transparency and accountability in FSOC’s annual reports.

In its written response, FSOC stated that its annual reports are designed to focus the attention of regulators, policymakers, Congress, and members of the public on potential risks to financial stability and how those risks should be addressed, rather than describing all market developments and potential risk hypotheses. However, FSOC added that it remains committed to providing as much transparency as possible regarding its work, and to the extent that it no longer recommends action related to a risk area identified in a prior annual report, it agreed to consider how to provide additional information regarding its analysis.

⁵ CIGFO, *Audit of the Financial Stability Oversight Council’s Monitoring of Interest Rate Risk to the Financial System: Report to the Financial Stability Oversight Council and the Congress*, CIGFO-2015-001, at 6 (July 27, 2015). Accessed: Feb. 5, 2016, at www.treasury.gov/about/organizational-structure/ig/Documents/CIGFO%20Document/Audit%20of%20the%20Financial%20Stability%20Oversight%20Councils%20Monitoring%20of%20Interest%20Rate%20Risk.pdf.

The CIGFO audit noted that FSOC did not specifically agree or disagree with the recommendation in its response. However, it stated that if FSOC provides additional information regarding its rationale for removing prior recommendations in its subsequent annual reports, such FSOC action would be responsive to the audit recommendation.

c. Responses to Stakeholder Requests

Report Responsive to Congressional Request Regarding Involvement of Non-career Officials in FHFA's Responses to FOIA Requests

The Senate Committee on Homeland Security and Government Affairs asked a number of IG offices to assess whether non-career officials (i.e., political appointees and employees hired under Schedule C of the excepted service) were involved in the respective agency's FOIA 5 U.S.C. § 552 process and, if so, whether their involvement resulted in any undue delay in the agency's response to a FOIA request or the withholding of any document or portion of a document that would have been provided but for their involvement.

OIG interviewed the officials responsible for the Agency's FOIA program. In separate interviews, FHFA's General Counsel, Chief FOIA Officer, and FOIA Officer (all career officials) each stated, unequivocally, that to the best of his or her knowledge, non-career officials have never attempted to involve themselves in the Agency's FOIA process. Each stated that non-career officials never caused or attempted to cause them to redact, withhold, or delay the release of any information through the FOIA process. OIG tested the assertions of these Agency officials by determining the identities of all FHFA non-career officials during the relevant period and reviewing a sample of 20 FOIA requests that were partially denied or denied during the service of non-career officials at FHFA. It found no evidence that non-career officials influenced or attempted to influence FHFA's FOIA office's decisions in these cases or caused any delays in the processing of the requests. OIG also analyzed all of the FOIA-related litigation brought against FHFA to date. None of the plaintiffs in these cases alleged that they were denied information due to the involvement of non-career officials in the Agency's FOIA process. OIG examined the pleadings, papers, and decisions in these cases and found no allegations, statements, or judicial findings of fact that suggested that non-career officials were involved, or attempted to be involved, with the Agency's FOIA process. For those reasons, OIG concluded that non-career officials had not been involved in FHFA's FOIA process. (See OIG, *FHFA Non-Career Employees Have Not Been Involved in FHFA's Freedom of Information Act Process* (COM-2015-002, August 6, 2015), online at www.fhfaig.gov/Reports/AuditsAndEvaluations.)

Response to Congressional Request Relating to FHFA's Oversight of Enterprises' Internal Controls Over Maintenance by Third-Party Contractors of Real Estate Owned Properties in the Enterprises' Inventories

In July 2015, OIG responded to a congressional request for an assessment of FHFA's oversight of the Enterprises' internal controls over contractors' maintenance of real estate owned (REO) properties in their inventories. (See Letter to the Honorable Elijah E. Cummings, dated July 24,

2015, online at www.fhfaoig.gov/Reports/AdditionalActionItems.) OIG conducted an audit survey to: (1) understand the requirements imposed by the Enterprises on their REO vendors for the initial and ongoing maintenance of REO properties and the differences, if any, in these requirements between the Enterprises; (2) determine whether the Enterprises adopted internal controls to monitor work performed by their vendors; and (3) assess whether the Enterprises took remedial actions against their REO vendors when their internal controls identified deficiencies.

OIG found that the Enterprises have announced virtually identical strategic goals for the maintenance of their REO properties: to secure and maintain them so that they are appealing to prospective buyers and ready for sale. Both Enterprises retain vendors to maintain their REO properties and impose standards for the maintenance of such properties in their respective vendor contracts. OIG found that, pursuant to their strategic goals, both Enterprises impose contractual requirements on their REO vendors to maintain all REO properties, regardless of their location, without regard to race, color, religion, sex, handicap, familial status, or national origin. Similarly, contracts used by both Enterprises require REO maintenance vendors to comply with anti-discrimination laws, including the Fair Housing Act.

The Enterprises' vendor contracts also require vendors to perform defined "initial" and "ongoing" maintenance activities. Both Enterprises confirmed that contract requirements, standards, and timing metrics are reinforced through corresponding mandatory training provided by the Enterprises to their vendors and supplemental internal controls. These controls include: broker inspection of vendors, establishment of complaint hotlines, quality control inspections performed by independent inspection contractors, internal Enterprise review of independent quality control inspection reports, and onsite assessments of REO properties by Enterprise employees. Through implementation of these controls, both Enterprises have identified material deficiencies with the maintenance performed by several REO vendors and imposed remedial measures.

3. OIG's Investigations

This OIG is vested with statutory law enforcement authority, which is exercised by the Office of Investigations (OI). OI is staffed by highly trained law enforcement officers, investigative counsel, forensic auditors, and support staff who conduct investigations related to programs overseen by FHFA. Depending on the type of misconduct uncovered during OIG investigations, the investigations may result in criminal charges, civil complaints, and/or administrative sanctions and decisions. Criminal charges filed against individuals or entities may result in plea agreements or trials, incarceration, restitution, fines, and penalties. Civil claims can lead to settlements or verdicts with restitution, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs. Five OIG investigative counsels have been appointed as Special Assistant U.S. Attorneys (SAUSA) in several judicial districts throughout the country and have prosecuted through guilty plea or trial criminal cases arising from OI's investigations in those districts.

During FY 2015, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 167 individuals, the conviction of 127 individuals, and 141 sentencings, as well as court-ordered fines and restitution awards. Figure 5 (see below) summarizes the results obtained during FY 2015 from our investigative efforts.

Figure 5. Prosecutions and Recoveries from October 1, 2014, Through September 30, 2015

	Criminal Investigations	Civil Investigations
Fines ^a	\$61,426,306	\$—
Settlements	\$—	\$—
Restitutions	\$106,165,454	\$—
Total	\$167,591,760	\$—
Charges	167	
Convictions	127	
Sentencings	141	
Trials	12	

^a Fines include criminal fines, seizures, forfeiture and special assessments, and civil fines imposed by federal court.

For ease of review of our OI activities, we group our criminal investigations into the categories described below. In each category, we describe the nature of the crime and include highlights of matters investigated by OIG.

a. Investigations: Civil Cases

OIG continues to actively participate in the Residential Mortgage-Backed Securities (RMBS) Working Group. Established by the President in 2012 to investigate individuals and entities responsible for misconduct involving the pooling of mortgage loans and sale of RMBS, the Working Group is a collaborative effort of dozens of federal and state law enforcement agencies. Since the inception of the RMBS Working Group, DOJ has negotiated civil settlements worth over \$32 billion. Among other things, we have reviewed evidence produced by various parties for members of the Working Group, assisted with witness interviews, provided strategic litigation advice, and briefed other law enforcement agencies on the operations of the RMBS market.

We continue to work closely with U.S. Attorneys' offices around the country and with state attorneys general to investigate allegations of fraud committed by financial institutions and individuals in connection with RMBS.

b. Investigations: Criminal Cases

RMBS Schemes

In this type of fraudulent conspiracy, traders fraudulently manipulate the buying and selling prices of RMBS bonds, causing customers to pay more to purchase the RMBS securities and to receive less when they sell RMBS securities. Below is an example of OIG investigative work during FY 2015 in this category.

Indictment of Nomura Bond Traders

Three former bond traders were indicted in a 10-count indictment alleging fraud in connection with sales of RMBS bonds. The indictment alleges that the three former supervisory traders, who sat on the RMBS desk at Nomura Securities International, Inc. (Nomura) in New York, engaged in a conspiracy to defraud Nomura customers. The indictment alleges that Nomura traders falsely stated the prices of RMBS bonds to their customers. When a customer agreed to buy an RMBS bond, the traders falsely inflated the price that Nomura paid for the bond, thereby inducing the customer to pay a higher overall price. Alternatively, when a customer negotiated to sell an RMBS bond, the traders fraudulently deflated the price at which Nomura could sell the bond, thereby inducing the customer to accept a lower overall price. The indictment further alleges these actions provided Nomura, and the indicted traders, an extra and unearned profit at the customer's expense. According to the indictment, the three co-conspirators also trained their subordinates to lie to customers and provided them with the language to use to deceive customers. The indictment further alleges that defendants created fictitious third parties in an effort to increase their profits. The three defendants were indicted on September 3, 2015.

Condo Conversion and Builder Bailout Schemes

In these types of schemes, sellers or developers typically solicit investors with good credit who want low-risk investment opportunities by offering deals on properties with no money down and other lucrative incentives, such as cash back and guaranteed and immediate rent collection. The sellers fund these incentives with inflated sales prices. The fraudsters conceal the incentives and the true property values from the lenders, defrauding them into making loans that are much riskier than they appear. When the properties go into foreclosure, lenders suffer large losses. Below we provide some highlights of OIG investigative work during FY 2015 in this category.

Trial Victory in South Florida Condominium Case

In an elaborate scheme, developers of multiple condominium conversion projects across South Florida offered incentives, including payment of cash-to-close, guaranteed rent and condo fees, and cash rebates to so-called "investors." Many of these purchasers were inexperienced in financial matters and could not understand English. For example, buyers at one condominium development in Palm Beach County could purchase condominium units for \$340,000 without putting up a penny of their own money and receive as much as \$25,000 cash back after closing.

The developers also promised to pay the difference between the unit's rental income and the buyer's monthly mortgage payment and condo fees for up to two years.

The incentives were concealed from the lenders that provided the mortgages, and many of the fraudulently obtained mortgage loans were later sold to Freddie Mac. The conspirators included real estate developers, a lawyer/title agent, real estate brokers, a loan officer, and others. One defendant was employed as a loan officer at a major bank, and was paid approximately \$2,000 cash per loan approved to "look the other way."

After a short time, the developers stopped paying the guaranteed rent and condo fees, and the buyers began to default on their mortgages. Local press reported at the time a foreclosure rate exceeding 70% at the condominium complex.

Multiple individuals have been charged in this case. In one instance, an indictment and a superseding indictment were returned charging four individuals with conspiracy and bank fraud. Three of those four charged pled guilty before trial. Trial began against the developer in April 2015. The developer claimed he relied on legal advice from his attorney/title agent, but that individual testified against him at trial. After 10 trial days, the jury rejected the advice-of-counsel defense and returned a guilty verdict, finding the developer guilty of conspiracy to commit bank fraud. The court subsequently sentenced him to 3 years in prison, forfeiture of approximately \$500,000 in profits, and the payment of approximately \$12.5 million in restitution.

This investigation has resulted in eight convictions—seven by guilty plea—and restitution orders totaling approximately \$18 million. The case was a referral to OIG by Freddie Mac's Financial Fraud Investigation Unit, after which OIG partnered with the FBI. An OI investigative counsel acting as an SAUSA handled the prosecution of all defendants in this investigation from the initiation of criminal charges through guilty pleas, trial, and sentencing.

Two Indicted in Elaborate Condominium Scheme Resulting in Losses to the Enterprises

On April 29, 2015, two individuals were indicted on charges of conspiracy to commit wire fraud and wire fraud affecting a financial institution. The indictment alleged that Osbel Sanchez and David Cevallos, acting in concert with others, bought or facilitated the sales of condominiums to straw buyers at inflated prices. According to the indictment, the inflated prices allowed the sellers in the transactions, also co-conspirators, to sell the condominiums for more than their market value and sales proceeds were allegedly divided among the participants in the scheme.

The indictment charged that the conspirators obtained mortgage loans from various financial institutions using fraudulent mortgage applications to fund the purchase of the condominiums. The indictment further alleged that the mortgage applications omitted material facts, including the existence of straw buyers and the payment of kickbacks to buyers, brokers, and other real estate professionals and third-party entities involved in the scheme. According to the indictment,

the scheme resulted in approximately \$4.2 million in losses to financial institutions including the Enterprises. Trial has been scheduled for March 2016.

Fraud Committed Against the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category involve a variety of schemes that target Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below we provide highlights of OIG investigative work during FY 2015 in this category.

Fraud Involving the FHLBanks' Affordable Housing Fund

The FHLBank of Dallas provides Affordable Housing Program (AHP) funds to eligible entities through a competitive grant funds program created by Congress to address local housing needs. The indictment alleged that, from February 2010 through August 2012, Marlene Williams, Executive Director of a nonprofit organization, Fiscal Integrity & Economic Development Association, Inc. (FIED), and Kayla Lindsey, Chief Financial Officer of FIED, applied to the FHLBank of Dallas for AHP funds through Trustmark Bank, an FHLBank of Dallas member bank. FIED was approved for, and received, the AHP funds.

According to the indictment, Williams and Lindsey submitted, or facilitated the submission of, inflated contractor invoices to the FHLBank of Dallas in order to carry out their scheme. It alleged that Williams and Lindsey convinced home repair contractors to inflate their invoices to pay for fees that were allegedly due to Williams and Lindsey for working on the grants. The indictment charged that the contractors kicked back approximately 20% of the AHP grant funds they received for repairs to Williams and Lindsey or their affiliated business.

On September 10, 2015, Williams pled guilty to a conspiracy to make false statements to the FHLBank of Dallas and is scheduled to be sentenced in March 2016; Lindsey is scheduled to begin trial March 2016.

Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. These schemes typically involve falsifying borrowers' income, assets, employment, and credit profiles to make them more attractive to lenders. These schemes often use bogus Social Security numbers and fake or altered documents such as W-2 forms and bank statements to defraud lenders into making loans they would not otherwise make. Typically, perpetrators pocket origination fees or inflate home prices and divert proceeds. Below we provide some highlights of OIG investigative work during FY 2015 in this category.

Two Individuals Sentenced and One Pleads Guilty in Maryland Loan Origination Scheme

Kevin Campbell, an investor in Baltimore residential real estate, and Jonathan Lee Miles, a loan officer for a local mortgage brokerage, caused false information to be provided to mortgage lenders to enable prospective purchasers to qualify for 18 home mortgage loans on properties that they could not actually afford. In a related case, from 2009 through 2010, Alberic Okou Agodio recruited straw buyers to purchase almost three dozen row houses in Baltimore from Campbell at prices far in excess of their actual market value. Agodio secured financing of approximately \$3.8 million through Miles on behalf of the straw buyers, with loans for which Campbell paid \$1.2 million to Agodio, which Agodio then used to pay for the down payments and closing costs, commissions to individuals who allowed him to falsely designate them as purchasers (“straw buyers”), referral fees to individuals who referred other straw buyers to him, and to compensate himself. In his agreement to plead guilty to conspiracy, wire fraud affecting a financial institution, and aggravated identity theft, Agodio admitted that he falsely represented that the straw buyers would use the properties as their primary residences and provided fraudulent earnings and bank statements for the straw buyers to document the false representations in the loan applications. Eventually, all the loans went into default.

In early September 2015, Miles and Campbell were sentenced to 18 and 19 months of incarceration, respectively; 5 years of supervised release; and ordered to pay Fannie Mae, Freddie Mac, and other institutions roughly \$1.2 million. On July 21, 2015, Agodio pled guilty and is currently awaiting sentencing.

Loan Origination Scheme Caused Over \$4 Million in Losses

Lawrence Day, a recruiter, Donald Mattox, a home builder/seller, and Michael Edwards, a loan officer, were indicted in federal court for conspiring with others to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material facts in HUD-1 Settlement Statements, loan applications, and other loan documents.

According to the indictment, the defendants caused fraudulent loan documents to be submitted to lending institutions knowing that the lending institutions would rely upon the materially fraudulent representations when funding the mortgage loans. Day, Mattox, Edwards, and others allegedly distributed portions of the loan proceeds to the conspirators for personal gain causing a loss of approximately \$4.8 million to Fannie Mae and other financial institutions.

During FY 2015, Day, Mattox, and Edwards pled guilty. Day was sentenced to 90 months in prison, 3 years of supervised release, and ordered to pay \$3,108,998 in restitution. Edwards was sentenced to 46 months in prison, 1 year of supervised release, and ordered to pay \$1,300,402 in restitution. Mattox was sentenced on January 5, 2016, to 7 months’ time served with 1 year of supervised release.

Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property securing the loan is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower intentionally misrepresenting or not disclosing material facts to induce a lender to agree to a short sale to which it would not otherwise agree. Below are some highlights of OIG investigative work during FY 2015 in this category.

Foreclosure Scam, Drug Trafficking, and Money Laundering Scheme, Texas

On September 10, 2015, two individuals were indicted on charges of bank fraud, conspiracy to commit bank fraud, and aggravated identity theft for their roles in a foreclosure scam.

According to the indictment, the defendants allegedly fraudulently deeded to themselves properties that were vacant and going through the foreclosure process. The true owners were not aware that the defendants had allegedly stolen their properties. Once the homes were fraudulently recorded in the defendants’ names, the defendants allegedly filed lawsuits that falsely asserted they were the owners of the properties. As a result of the lawsuits, the foreclosure proceedings were temporarily stopped. The defendants then allegedly tried to convince the foreclosing financial institutions, including Fannie Mae, to permit the defendants to sell the properties in short sales.

During the investigation, OIG uncovered evidence of additional criminal activity, including money laundering and trafficking of stolen credit cards and illegal drugs, involving these two individuals, as well as four others who were also indicted on September 10, 2015.

Loan Modification and Property Disposition Schemes

These schemes prey on homeowners who are in default or are at risk of imminent default on their home loans. Businesses advertise that they can secure loan modifications, provided that the homeowners pay significant upfront fees. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below are some highlights of OIG investigative work during FY 2015 in this category.

Three Convicted, Sentenced in California Loan Modification Case

Between 2012 and 2014, Christopher George, a co-owner of 21st Century, Crystal Buck and Albert DiRoberto, both sales employees at 21st Century, along with eight other individuals were indicted for a scheme to defraud more than 4,000 financially distressed homeowners of more than \$7 million by having them pay for services, including loan modifications, which were never provided.

According to the indictment, the 11 defendants contacted distressed homeowners and made numerous false or misleading statements, including that 21st Century: (1) was operating through a federal government program; (2) would be able to obtain new mortgages with specific interest rates and reduced payments; and (3) would negotiate loan modifications with their lenders. The indictment alleged that, once hired, 21st Century regularly instructed its clients to stop making mortgage payments and to cut off all contact with their lenders because 21st Century would negotiate the modifications. Many of these loans had been purchased by Fannie Mae and Freddie Mac.

After a five-week jury trial, three defendants were found guilty for their roles in the scheme and ultimately sentenced on September 28, 2015. George was sentenced to 20 years in prison, 5 years of supervised release, and ordered to pay \$7,065,117 in restitution. Buck and DiRoberto were each sentenced to 5 years in prison. The other defendants who pled guilty received sentences of up to 18 years in prison.

Loan Modification, Short Sale, Origination Fraud Scheme

In December 2014, Joseph DiValli, a loan officer, was indicted for conspiring with others, including unlicensed title agents, an attorney, another loan officer, and a real estate agent, to cause lenders to release liens on encumbered properties via fraudulently arranged short sale transactions. DiValli's co-conspirators allegedly recruited straw buyers and submitted false loan applications and documents to obtain mortgages. DiValli fraudulently induced a lender to secure a modification of a loan on the loan officer's personal residence. As a result of misconduct by DiValli and co-conspirators, lenders accepted proceeds of purported short sales in full satisfaction of existing mortgages, and the losses to these lenders as a result of the scheme allegedly totaled approximately \$2 million. Fannie Mae purchased or secured over 100 loans from the affected lenders.

DiValli pled guilty to conspiracy to commit wire fraud, wire fraud, and tax evasion. He is awaiting sentencing in federal court. In addition, five of the co-conspirators, Delio Coutinho, Amedeo Gaglioti, Carmine Fusco, Christopher Ju, and Kenneth Sweetman, received sentences ranging from supervised release to 36 months in prison and were ordered to pay restitution.

Property Management and REO Schemes

The wave of foreclosures following the housing crisis left the Enterprises with an inventory of REO properties (i.e., properties that the Enterprises took back in foreclosure, possess, and are responsible to maintain). This REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises. Below we provide an example of OIG investigative work in this category.

Three Charged in Arizona REO Scheme

On August 26, 2015, Daphne Iatridis, her husband Arthur Telles, and son Brendyn Iatridis, all real estate agents, were indicted by a federal grand jury for their roles in a fraud scheme involving Fannie Mae REO properties. According to the indictment, Iatridis, a Fannie Mae REO-approved agent, along with her husband and son, conspired to purchase 28 Fannie Mae REO properties in violation of Fannie Mae rules by using the identities of others. The indictment further alleged that, among other things, the co-conspirators purchased the REO properties at a discounted price, overcharged Fannie Mae for maintenance and expenses, and rented the REO properties for personal benefit.

Adverse Possession Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. Below we provide an example of OIG investigative work during FY 2015 in this category.

Four Charged in Adverse Possession Scheme

On June 30, 2015, David Farr, Torrez Moore, Raymond Trimble, and Arshad Thomas were charged by criminal complaint for allegedly filing false title documents for six properties with the Cook County Recorder of Deeds and using friends and family members to occupy the properties unlawfully. Five of the six properties were Fannie Mae REO properties.

The four defendants are allegedly sovereign citizens who do not recognize the authority of federal or state law.

Multi-family Schemes

Investigations in this category involve a variety of fraud schemes that relate to loans issued by the Enterprises to finance multi-family apartment buildings. A multi-family building is a building that has four or more units available for rent.

Fraudulent Multi-family Loan/Extortion Plea, Carbondale, Illinois

In May 2015, Maximus Yaney, an owner of multi-family properties in Carbondale, Illinois, was indicted for allegedly acting in concert with his employees, including James Russell, for conspiring to commit fraud to obtain a loan to purchase an apartment building. The indictment alleged that Yaney used one of his companies, H.G. Capital, LLC, to purchase an apartment building for \$2,710,000 and then caused H.G. Capital to sell the building to another company that he owned for \$9,780,000. To obtain the necessary financing, Yaney allegedly made material misrepresentations and omissions to lenders, including failure to disclose his ownership in both companies and submitting false information regarding the rental status of apartments in the building. As a result of the alleged fraud, Fannie Mae lost \$6,602,226 and one of its delegated underwriting servicers, Greystone Servicing, lost \$1,146,793.

Yaney was sentenced to 18 months in prison. Prior to sentencing, Yaney made full restitution payments to Fannie Mae and Greystone Servicing. Russell was sentenced to 18 months in prison and ordered to pay \$204,484 in restitution.

Investigations: Administrative Actions

Many OIG investigations result in administrative referrals to other entities for action based upon the results of OI's investigative work. For example, a guilty plea of participation in a bank fraud scheme by a licensed real estate agent or attorney or certified public accountant may result in a referral to a state licensing body for disciplinary actions. By the same token, participation by a real estate professional in mortgage fraud may result in a referral to another federal agency for possible suspension or debarment from participation in federal programs. For FY 2015, OIG made 176 referrals for suspension and debarment.

Suspended Counterparty Referrals

FHFA has adopted a Suspended Counterparty Program under which it issues "suspension orders directing the regulated entities to cease or refrain" from doing business with counterparties (and their affiliates) who were previously found to have "engaged in covered misconduct." Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, covered misconduct means:

Any conviction or administrative sanction within the past three (3) years if the basis of such action involved fraud, embezzlement, theft, conversion, forgery, bribery, perjury, making false statements or claims, tax evasion, obstruction of justice, or any similar offense, in each case in connection with a mortgage, mortgage business, mortgage securities or other lending product.

In FY 2015, OIG made 99 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program

4. OIG's Regulatory Activities and Outreach

a. Regulatory Activities

The Inspector General Act requires OIG to review existing and proposed legislation and regulations related to FHFA's programs and operations, and to make recommendations "concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by [FHFA] or the prevention and detection of fraud and abuse in such programs and operations." During FY 2015, FHFA sought OIG review on several proposed and final rules, which OIG provided.

b. Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system and recent history has shown that financial distress at the Enterprises and deteriorating conditions in U.S. housing and financial markets threatened the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy and decisions were made to invest \$187.5 billion in the Enterprises. The continuing outsized role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations, and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

Our focus on risk-based oversight demands that we are sufficiently nimble to evaluate the sufficiency of existing controls to mitigate known risks and to identify new and emerging risks and the systems in place to control those risks. We have created an internal resource, ORA (discussed above), to assist in identification of emerging risks and appropriate revisions to our work plan as new risks emerge and existing risks are well-controlled. OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during FY 2015 include:

Congress

To fulfill its mission, OIG works in close partnership with Congress and is committed to keeping it fully apprised of our oversight of FHFA. OIG provided information and briefings to key congressional committees and offices. Briefing topics included recommendations from OIG reports and FHFA's progress in implementing them, themes emerging in OIG's body of work, OIG's organization and strategy, and areas of ongoing work.

Additionally, we endeavor to inform Congress through responses to numerous technical assistance and information requests, as well as replies to formal written inquiries from members of Congress on various topics.

Anonymous Hotline

During FY 2015, the OIG anonymous hotline continued to serve as a vehicle through which Agency, Enterprise, and FHLBank employees and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. OIG actively promotes its anonymous hotline in multiple ways, including its website, posters, emails targeted to FHFA and GSE employees, and public reports. During 2015 our hotline processed

535 hotline complaints, which included: reports of alleged misconduct that were referred to OI for potential civil and/or criminal investigation; reports of alleged wrongdoing in connection with other agencies that were referred to the appropriate resource; requests for assistance on housing-related issues; and complaints on OIG-related issues.

Outreach

OIG develops public-private partnerships where appropriate. During FY 2015, we delivered 76 fraud awareness briefings to different audiences to raise awareness of OIG's law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed and intends to further strengthen ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; the FBI; HUD-OIG; the Federal Deposit Insurance Corporation Office of Inspector General; IRS-CI; SIGTARP; the Financial Crimes Enforcement Network; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae's Mortgage Fraud Program and with Freddie Mac's Financial Fraud Investigation Unit.

During 2015 OIG worked with additional local and state partners including the Stanislaus County California District Attorney's Office, Ventura County California District Attorney's Office, King County Washington District Attorney's Office, Hudson County Prosecutor's Office, Florida Office of Financial Regulation, Broward County Sheriff's Office, Florida Department of Law Enforcement, Broward County State Attorney's Office, Chicago Police Department, Cook County State Attorney's Office, Wayne County Prosecutor's Office, DuPage County State Attorney's Office, Burr Ridge Police Department, Elk Grove Village Police Department, Flossmoor Police Department, and the attorneys general of California, New York, New Jersey, Florida, and Mississippi.

Close Coordination with Other Oversight Organizations

OIG shares oversight of federal housing program administration with other federal agencies, including HUD, the Department of Veterans Affairs, the Department of Agriculture, and Treasury's Office of Financial Stability (which manages the Troubled Asset Relief Program); their IGs; and other law enforcement organizations. To further the oversight mission, we coordinate with these entities to exchange best practices, case information, and professional expertise. During FY 2015, OIG made numerous presentations to law enforcement agencies, mortgage fraud working groups across the country, and individual federal agencies responsible for investigating mortgage fraud, such as HUD-OIG, the FBI, the Secret Service, and DOJ.

We maintained active participation in coordinated oversight activities during FY 2015:

- ***RMBS Working Group.*** OIG continued its significant role in the RMBS Working Group. (See discussion at “Investigations: Civil Cases,” page 26)
- ***FBI Cybercrimes Task Force.*** The FBI’s Washington, DC, field office spearheads a cybercrimes task force, and OIG has assigned a special agent to it. This multi-agency task force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help prosecute cybercriminals and stop cyber attacks made against institutions maintaining personally identifiable information, trade secrets, and financial data.
- ***CIGIE.*** OIG actively participates in several CIGIE committees and working groups.
 - The Inspection and Evaluation Committee provides leadership for the CIGIE inspection and evaluation community’s effort to improve agency program effectiveness by maintaining professional standards, developing protocols, promoting the use of advanced techniques, and fostering awareness of best practices. During FY 2015 the committee continued its work on a pilot “peer review” program for inspection and evaluation units in the IG community. The peer review is designed to assess organizations’ work under CIGIE’s Blue Book (January 2012) and to promote credibility of such work by validating the organizations’ work processes and evaluating their objectivity, independence, and rigorous adherence to applicable standards. The Committee’s training team, of which OIG is an active member, also planned and sponsored training and development sessions for inspection and evaluation staff from across the IG community, including a new week-long course teaching the fundamentals of conducting and writing inspections and evaluations. Finally, the committee began work on a new website to share documents among various community members.
 - The Investigation Committee advises the IG community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. During FY 2015, the Investigations Committee, in conjunction with the Legislation Committee, created a working group to gather information about the history, requirements, and necessity of law enforcement authority in the IG community. Another committee working group began a project to review and make recommendations regarding the quality standards for investigations and the investigations peer review process. Finally, OIG participated in a joint subcommittee of CIGIE’s Investigation and Information Technology Committees that focuses on digital forensics and computer crime investigations.

- **CIGFO.** CIGFO was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to oversee FSOC, which is charged with strengthening the nation's financial system. OIG is a permanent member of CIGFO, along with the IGs of Treasury, the FDIC, the SEC, and others. By statute, CIGFO audits FSOC each year. This year, OIG led the CIGFO audit of FSOC's monitoring of interest rate risk to the financial system. The report recommended that FSOC document in its annual reports to Congress its rationale for removing prior year recommendations related to interest rate risk. (See discussion at pages 22-23).

Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak regularly with officials at the FHLBanks and the Enterprises to benefit from their insights and made presentations to industry groups, including the Mortgage Bankers Association, International Association of Financial Crimes Investigators, banks, and Fidelity National Title Group, focusing on fraud trends and emerging schemes in the mortgage industry. We also speak with homeowners' groups and associations.

E. CURRENT AND PLANNED ACTIVITIES

Because FHFA serves a unique role as both conservator and regulator of the Enterprises, OIG's responsibilities necessarily include oversight of FHFA actions, when it acts as conservator, to determine whether FHFA is fulfilling its statutory duties and responsibilities and safeguarding taxpayers. Our oversight role also reaches the Enterprises, recipients of \$187.5 billion in taxpayer monies, to ensure that they are satisfying their obligations under the authority delegated to them in the conservatorships, and to ensure that third parties (such as lenders and servicers) are fulfilling their obligations to the Enterprises.

OIG's mandate is broad and comprehensive, involving oversight of the full scope of FHFA's programs and operations and of its conservatorship of the Enterprises. Our work plan is dynamic and will adapt to a changing risk profile.

Over the next several years, OIG will continue to conduct and participate in investigations into allegations of misconduct or fraud involving FHFA programs and operations, which includes the operations of Fannie Mae, Freddie Mac, and the FHLBanks. Additionally, OIG will continue to offer the support of its Investigative Counsel—attorneys with criminal prosecution experience—to U.S. Attorneys Offices and law enforcement agencies to assist in investigating and prosecuting OIG cases.

OIG also will continue to focus our efforts on the risks facing the Agency and the GSEs that we identify as a result of our strategic planning process. Our risk-based approach, detailed in our Audit and Evaluation Plan of February 2015, identified four areas that OIG believes present high

levels of financial, governance, and reputational risk to FHFA and the GSEs. Our work plan is dynamic and through continuing strategic planning will adapt to a changing risk profile.

Finally, OIG will issue two Semiannual Reports annually to record its audits, evaluations, compliance activities, and investigations.

F. SUMMARY OF FY 2017 BUDGET REQUEST

OIG requests \$49,900,000 and 155 FTE for its operations during FY 2017. This request represents no increase from OIG's FY 2016 budget and demonstrates our commitment to responsible stewardship of scarce resources in a tight fiscal climate.⁶

⁶ The FY 2017 request assumes that the entire \$49,900,000 will be funded via GSE assessments as OIG anticipates little to no carry-forward from the prior year.

II. BUDGET JUSTIFICATION

A. BUDGET TABLES

3-Year Budget History Table

Estimate to Congress	FY 2015 Actual ⁷	FY 2016 Estimate	FY 2017 Request
Budget Request	\$48,000,000	\$49,900,000	\$49,900,000
<i>FTE</i>	<i>150</i>	<i>155</i>	<i>155</i>

Amounts Available for Obligation
(Dollars in Thousands)

	2015 Actual	2016 Estimate	2017 Request
Budget Authority			
Unobligated balance, start of year	\$1,299	\$243	\$0
Annual assessment estimate	\$46,701	\$49,657	\$49,900
Estimated prior year net recoveries	\$394	0	0
Subtotal Amount Available for Obligation	\$48,394	\$49,900	\$49,900
Estimated Total Obligations	\$48,151	\$49,900	\$49,900
Unobligated balance, current year funds	\$243	\$0	\$0
Subtotal unobligated balance, year end	\$243	\$0	\$0

⁷ Pursuant to section 1106 of HERA, FHFA assessed the GSEs to support the operations of OIG in FYs 2011-2016. Further, the FY 2017 budget estimate and request includes proposed assessments language in support of \$49,900,000 in assessments for the operations of OIG.

Explanation of Changes: Dollars and FTE
(Dollars in Thousands)

	FTE	Budget Authority
2016 Estimate	155	\$49,900
2017 Request	155	\$49,900
Net Change	0	\$0

B. ASSESSMENTS LANGUAGE

For the necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, \$49,900,000, to remain available until September 30, 2018, to be derived from assessments collected from the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks under section 1106 of the Housing and Economic Recovery Act of 2008.

C. BUDGET REPORTING REQUIREMENTS UNDER THE INSPECTOR GENERAL ACT OF 1978

In accordance with section 6(f)(3) of the Inspector General Act, OIG submits the following information related to its requested budget for FY 2017:

- The aggregate budget request for the operations of OIG is \$49,900,000 and 155 FTE;
- In support of the government wide IG community, OIG contributes funds for the operations of the CIGIE. In accordance with the reporting requirements of section 6(f)(3)(D) of the IG Act, OIG will contribute approximately \$149,000 for CIGIE operations during FY 2017; and
- The budget fully funds OIG training needs for FY 2017.⁸

D. BUDGET REPORTING REQUIREMENTS UNDER OMB CIRCULAR NO. A-11

The budget request includes adequate funds for education and training of the acquisition workforce.

⁸ Professional standards require OIG OA staff to acquire 80 hours of job-related training every two years. Similarly, professional standards require OIG to provide OE staff with 40 hours of job-related training biennially, but to strive to provide 80. In compliance with the applicable standard and to promote interoperability of audit and evaluative staff, OIG provides 80 hours of job-related training to OE staff every two years.

Budget by Object Classification (BOC)

BOC	Estimated Obligations by Object Classification	FY 2015 Actual	FY 2016 Estimate	FY 2017 Request
11.1	Full Time Permanent	\$19,946,000	\$22,705, 000	\$23,400,000
11.3	Other than Full-time Permanent	254,000	270,000	300,000
11.5	Other Personnel Compensation	<u>1,518,000</u>	<u>1,489,000</u>	<u>1,550,000</u>
11.9	Total Personnel Compensation	<u>\$21,769,000</u>	<u>\$24,464,000</u>	<u>\$25,250,000</u>
12.1	Civilian Personnel Benefits	8,868,000	8,975,000	9,120,000
13.1	Benefits for Former Employees ⁹	990,000	0	0
21.0	Travel and Transportation of Persons	651,000	750,000	800,000
22.0	Transportation of Things	37,000	48,000	55,000
23.1	Rental Payments to GSA	552,000	578,000	650,000
23.3	Communications, Utilities, and Miscellaneous	1,387,000	1,047,000	1,087,000
24.0	Printing and Reproduction	40,000	46,000	50,000
25.1	Advisory and Assistance Services	2,806,000	3,100,000	2,700,000
25.2	Other Services	1,158,000	1,600,000	1,750,000
25.3	Purchases of Goods and Services from Government Accounts	7,448,000	6,183,000	6,223,000
25.7	Operation and Maintenance of Equipment	383,000	373,000	525,000
26.0	Supplies and Materials	466,000	515,000	575,000
31.0	Equipment	1,458,000	1,850,000	1,000,000
32.0	Land and Structures	189,000	371,000	115,000
	Total (Lines 11.9 – 32.0)	\$48,151,000	\$49,900,000	\$49,900,000

⁹ Incidental employer costs associated with voluntary separation benefits (taxes and payments for lump sum leave) are included in other budget object classes within the table as appropriate.

III. THE FY 2017 PERFORMANCE PLAN

OIG reports its budget and operational activities through the resource management strategy portion of FHFA's budget. However, OIG is an independent office that reports to both the head of FHFA and the Congress. For this reason, OIG has developed its own strategic goals and objectives. Although aligned with FHFA's strategic goals, OIG's goals are premised on its statutory responsibilities and addressing identified risks.

The following sets forth OIG's strategic goals, objectives, and performance measures.

OIG Strategic Goal 1

Promote FHFA's effective oversight of the GSEs' safety and soundness, and housing missions.

Objective 1: Promote effective risk oversight by FHFA.

To achieve this objective, OIG is committed to:

- Assessing FHFA's oversight of the FHLBanks' and Enterprises' management of credit, interest rate, operational, and other risks.
- Reporting on FHFA's current and future directives and regulations relating to risk.

Objective 2: Assess FHFA's oversight of the GSEs' housing mission and goal responsibilities.

To achieve this objective, OIG is committed to:

- Consistent with the Inspector General Act, reviewing and reporting on FHFA's legislative rule-making and policy initiatives.
- Reporting on FHFA's efforts to ensure access to mortgage credit.
- Reporting on the Enterprises' home retention programs.
- Reporting on the Enterprises' oversight of servicers' administration of delinquent and defaulted loans.
- Reporting on the FHLBanks' housing mission activities.

Objective 3: Assess the effectiveness of FHFA's operations.

To achieve this objective, OIG is committed to:

- Reporting on FHFA's use of technology and its security, contracting, and human capital management.

- Assisting FHFA in the early detection and prevention of fraud, waste, and abuse in the GSEs' programs and operations.

Performance Measures in Support of FHFA's Effective Oversight of the GSEs

	Performance Indicators		
	FY 2015 Estimate	FY 2016 Target	FY 2017 Target
Percentage of work products related to FHFA's effective oversight of the GSEs' safety and soundness, and housing missions	33%	58%	50%
Percentage of work products related to FHFA's internal operations	33%	17%	17%

OIG Strategic Goal 2

Promote FHFA's effective management and conservatorship of the Enterprises.

Objective 1: Assess FHFA's and the Enterprises' plans and progress on their strategic goals.

To achieve this objective, OIG is committed to:

- Reporting on FHFA's plans and progress in meeting its strategic and conservatorship goals.
- Contributing to the dialogue on GSE reform through independent fact finding and objective analysis.

Objective 2: Assess FHFA's effectiveness in controlling the costs of the conservatorships.

To achieve this objective, OIG is committed to:

- Reporting on FHFA's effectiveness in managing the conservatorships.
- Reporting on fraud, waste, and abuse.

Performance Measures in Support of FHFA's Effective Management and Conservatorship of the Enterprises

	Performance Indicators		
	FY 2015 Estimate	FY 2016 Target	FY 2017 Target
Percentage of OIG work products related to FHFA's effective management and conservation of the Enterprises	33%	25%	33%

OIG Strategic Goal 3

Promote effective FHFA internal operations.

Objective: Detect and deter fraud, waste, and abuse.

To achieve this objective, OIG is committed to:

- Ensure that at least 75 percent of Hotline complaints are issued correspondence within 72 hours.
- Collaborate with FHFA and the GSEs on matters associated with fraud.
- Engaging in outreach to FHFA employees and stakeholders on fraud, waste, and abuse.
- Investigating and reporting on fraud, waste, and abuse.

Performance Measures in Support of Effective FHFA Internal Operations

	Performance Indicators		
	FY 2015 Estimate	FY 2016 Target	FY 2017 Target
Percentage of criminal investigative cases presented for prosecution	70%	70%	70%
Number of outreach presentations provided to stakeholders to include industry professionals, law enforcement personnel, and prosecutors	50	50	50

OIG Strategic Goal 4

Promote effective OIG internal operations.

Objective 1: Maintain workforce expertise and collaboration to meet goals.

To achieve this objective, OIG is committed to:

- Recruiting, retaining, training, and developing a stable workforce.
- Ensuring succession plans, cross training, and critical expertise.

Objective 2: Maintain access and data security protocols with FHFA and the GSEs.

To achieve this objective, OIG is committed to:

- Maintaining formalized protocols of data access, security, and storage with FHFA and the GSEs as appropriate.
- Centralizing internal processes for data.

Performance Measures in Support of Effective OIG Internal Operations

	Performance Indicators		
	FY 2015 Estimate	FY 2016 Target	FY 2017 Target
Maintain access and data security protocols with FHFA and the GSEs	Meets	Meets	Meets
Enhance information sharing among OIG offices	Meets	Meets	Meets